

>>> "Cummings, Joseph D (OIG/OAS)" <[Joseph.Cummings@oig.hhs.gov](mailto:Joseph.Cummings@oig.hhs.gov)> 2/2/2009  
1:33 PM >>>  
Wendy:

Attached are HHS-OIG's responses to the six questions FASAB asked in the exposure draft "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board. If you have any questions, please call me at the number below.

Thank you for allowing HHS-OIG to comment.

Joseph D. Cummings, CPA

Director, Financial Statement Audits and Related Services

Department of Health and Human Services, Office of Inspector General  
Parklawn Bldg, Room 18B-08  
5600 Fishers Lane

## Questions for Respondents

Please see the instructions presented in the body of the exposure draft at page 8. All responses are requested by February 2, 2009.

### Hierarchy of Generally Accepted Accounting Principles

Q1. This Exposure Draft (ED) proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft (see paragraphs 5 - 8)? Please explain the reasons for your position in as much detail as possible.

*A1: HHS-OIG, for the most part, agrees with the hierarchy as stated in paragraphs five through eight of the exposure draft. However, HHS-OIG believes FASAB should clarify at what level FASB standards would apply for preparers and auditors of Federal Financial Statements. When accounting and reporting issues arise not covered by FASAB, preparers and auditors for Federal Financial Statements usually refer to standards established by FASB. For example, FASAB standards have few references for accounting for leases, but preparers and auditors of Federal Financial Statements know they can apply the accounting and reporting requirements in FASB No. 13.*

### Application of Standards Issued by the Financial Accounting Standards Board

Q2. This ED proposes to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports (see paragraph 9). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible. To help you in preparing your response, a listing of some of the entities that apply FASB standards as well as some of the areas where differences occur is included in **Error! Reference source not found..**

*A2. HHS-OIG agrees that the majority of the entities that have reported in conformance with FASB standards should continue to report in this manner. Entities with primary activities similar to those of a private business enterprise, do not receive federal appropriations or receive an immaterial amount of federal appropriation should not be required to prepare statements in accordance with FASAB. For example, FDIC and NCUA generate fees from the member institutions for which they provide insurance services. The primary users of the financial reporting for these agencies have much more familiarity with FASB rather than FASAB reporting requirements.*

*Some Federal entities, such as the Appalachian Regional Commission (ARC), receive their primary revenue from federal appropriations. ARC primarily funds grants and the*

*agency should record information and prepare its financial statements in conformity with FASAB. The National Institutes of Health receives their primary revenue from federal appropriations and their divisions fund grants for medical research. NIH and its divisions report financial information in accordance with FASAB standards. FASAB should consider materiality of the affected entity. Some entities are not material to the government-wide Consolidated Financial Statements and so a change in the reporting will not make a material difference. The ARC would be one such agency. HHS-OIG believes, for consistency purposes, FASAB should require Federal entities to follow its standards when their primary revenue sources come from appropriations.*

Q3. This ED proposes to clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards (see paragraphs 10 and 11). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.

*A3. HHS-OIG agrees with this statement. The essence of the Statement seems to be that the entity should be required to prepare FASAB standards unless they make a good case for the need to report under FASB standards. This seems like a logical requirement that will allow entities to report under the standards best suited for their organization.*

### **Separate Project on Reporting By Federal Entities That Primarily Apply Standards Issued By The FASB**

The Board would greatly appreciate your responses to the following questions to aid in the Board's future deliberations on its companion project on reporting by federal entities that primarily apply standards issued by the FASB. Further information on this project may be found in paragraphs A7 through A16 of Appendix A: Basis for Conclusions and on the FASAB website at <http://www.fasab.gov/projectsgaap.html>.

Q4. The Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether additional reporting may be required in order to meet the objectives of federal financial reporting (e.g., budgetary reporting, cost accounting, management's discussion and analysis). What FASAB reporting requirements are you aware of that would complement or enhance current reporting by federal entities following FASB standards (see paragraphs A8 through A12 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.

*A4. HHS-OIG could not envision additional reporting that would enhance current reporting. The balance sheets prepared under FASAB standards are very similar to the*

*balance sheets prepared under FASB standards. The Income Statement prepared under FASB standards emphasizes the income producing activities of an entity while the Statement of Net Cost focuses on the cost activities. Also, the Income Statement and Statement of Net Cost are calculated exactly opposite of each other. A private entity calculates income by subtracting expense from revenue. Federal entities calculate net cost by subtracting gross cost from overall revenue. For budgetary reporting, the majority of the entities listed in Appendix C do not receive appropriations or receive immaterial appropriations from the federal government. To require them to follow Federal budgetary reporting requirements would not provide any additional information because the entities would have little or nothing to report. Aside from requiring these entities to prepare additional statements in accordance with FASAB HHS-OIG is not sure what additional information would be helpful.*

Q5. As noted in the previous question, the Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether information provided by these entities to a parent agency or the U.S. Department of the Treasury for the consolidated financial report of the U.S. Government (CFR) should conform with accounting and reporting principles issued by the FASAB where there are material differences between the two sources (see paragraphs A13 through A15 of Appendix A: Basis for Conclusions). Do you agree or disagree that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards? Please explain the reasons for your position in as much detail as possible.

*A5. HHS-OIG does not agree that the information provided for consolidated financial reports should conform to FASAB standards. If a material difference exists between the two types of reporting it seems that there is likely a difference in the way the FASB standards and the FASAB standards require the reporting of transactions. If an entity is accounting and reporting in conformance with FASB but has to supply information in accordance with FASAB, HHS-OIG believes that information supplied to conform with FASAB could mislead the users of the financial information. The CFS should provide disclosures when material differences exist between FASB and FASAB reporting requirements.*

Q6. Do you have a current opinion on whether federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards (IFRS), given the discussions regarding whether public companies should use IFRS (see paragraph A16 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.

*A6. To offer an opinion on this matter at this time seems somewhat premature. Currently, no requirement exists for public companies to follow IFRS and the convergence of IFRS and GAAP will not take place until 2013. It would seem prudent to wait until more information becomes available before providing an opinion on this matter.*